SMITH KLINE & FRENCH LABORATORIES ANNUAL REPORT 1971

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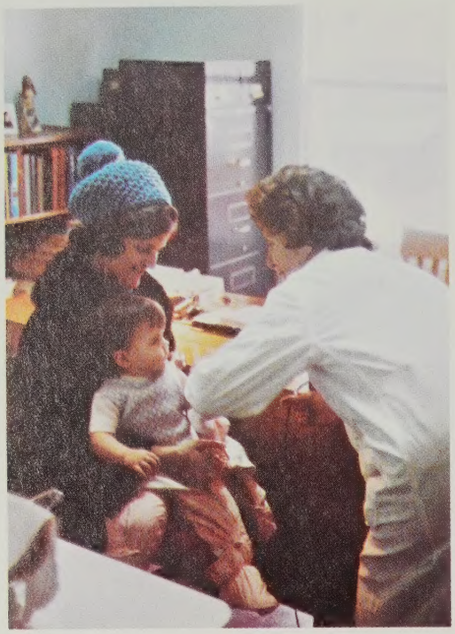
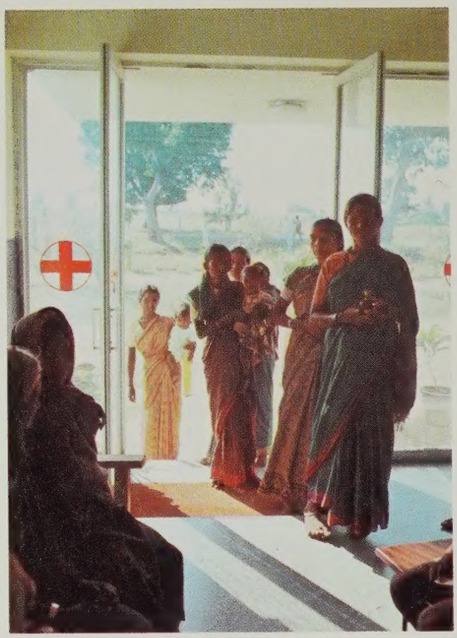
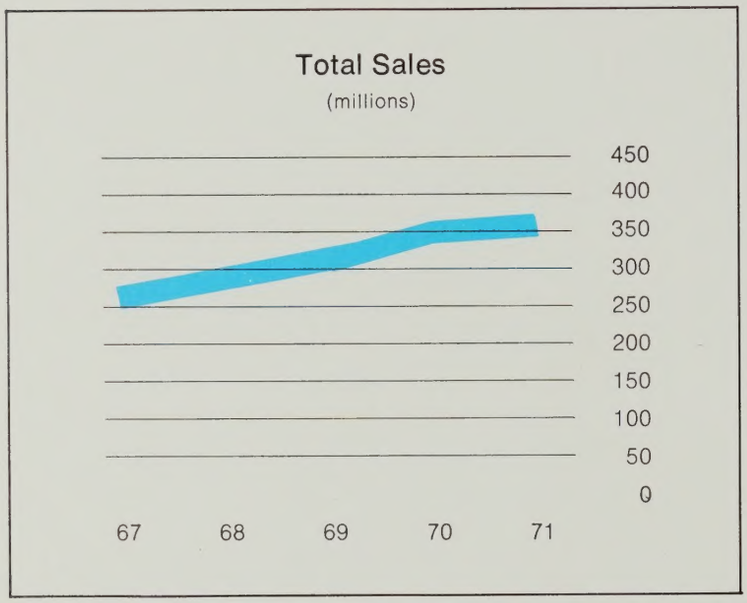
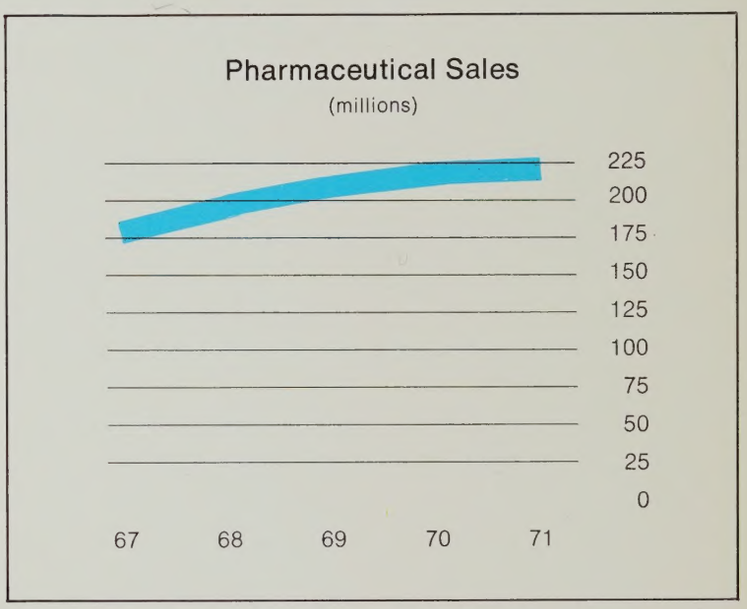
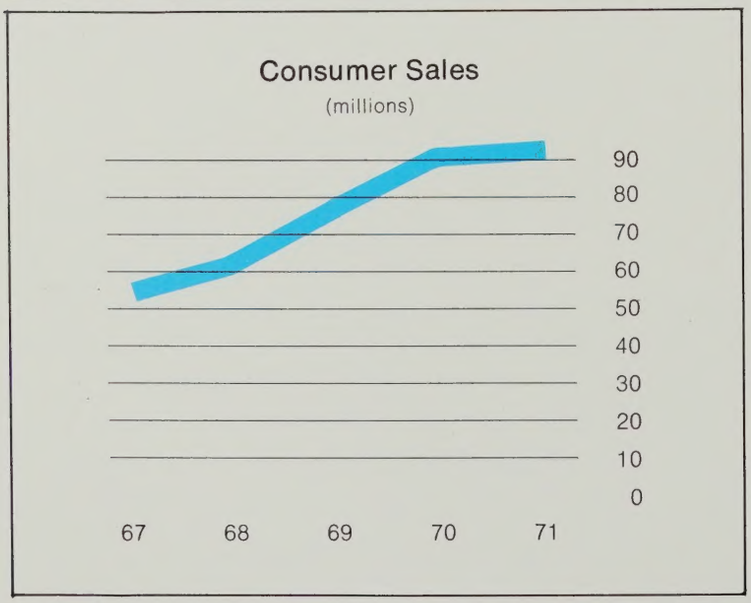


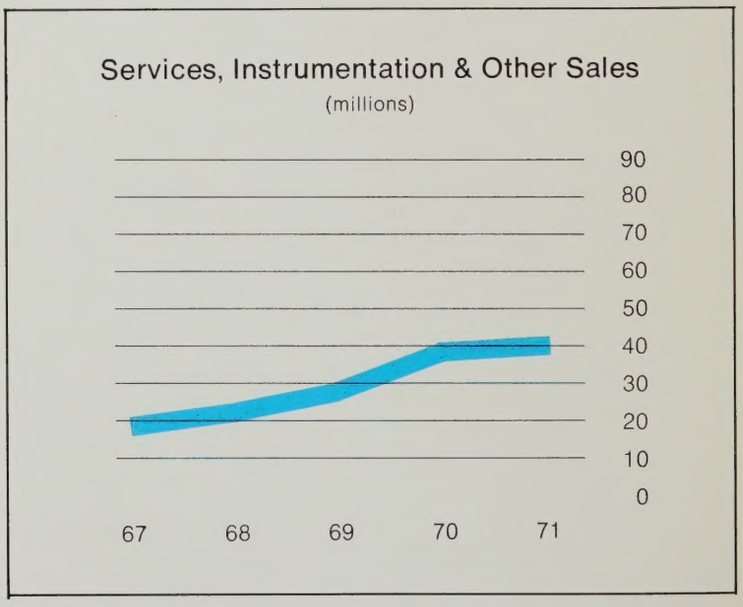


In addition to its operations in the United States, SK&F has facilities and markets its various product lines around the world. For example, the Company's pharmaceuticals are found in clinics and hospitals and are used by physicians on every continent. The front and back covers show a clinic in Canada and one in India where SK&F pharmaceutical products are used.









HIGHLIGHTS

	1971	1970
Sales	**$357,153,000**	$347,023,000
Earnings before income taxes	**68,021,000**	78,224,000
Net earnings	**44,871,000**	43,654,000
Per share of common stock:		
Earnings	**$3.09**	$3.01
Dividends	**2.00**	2.00
Shareholders' equity	**208,422,000**	192,477,000
Research and development expenses	**35,079,000**	31,313,000
Capital expenditures	**16,268,000**	17,601,000
Number of shareholders of record	**17,947**	18,648

TO OUR SHAREHOLDERS

During 1971, we recorded new peaks in the consolidated sales and net earnings of your Company, although the percentage increases, as compared to 1970, were small. We also made basic changes in your Company's management structure last year that we believe will increase SK&F's opportunities for growth in the future.

Consolidated annual sales for 1971 were $357,153,000, up $10,130,000, or 2.9%, over 1970. Pretax earnings were $68,021,000, a decline of 13% from 1970. Net earnings were $44,871,000, or $3.09 per share, up 2.8% from $43,654,000, or $3.01, in 1970.

We had anticipated that our sales growth last year would be considerably greater than it was. In the first quarter of 1971, a major decline in the incidence of upper respiratory infections adversely affected the sales of our cold products. This situation was a major contributor to the drop in our pretax earnings, but there were other factors as well, chiefly the impact of the depressed U. S. economy on sales of our instrument businesses, the effect of high Pennsylvania state taxes, and decreases in sales of amphetamine products resulting from increased Government regulation of their use and distribution. The Pennsylvania tax on corporate capital stock alone cost us five cents a share; because of the nature of this tax, it was reflected at the pretax level. We were able to compensate in part for these negative factors at the net earnings level through the tax benefits accruing from our Puerto Rican subsidiary operations.

On the positive side, there was a considerable strengthening of the foundation of our operations in 1971 as a result of the following: the restructuring of our management organization along worldwide product lines, continued market expansion by our Love Cosmetics, and increased corporate commitment to research and development, with total R&D expenditures in 1971 of over $35 million.

Our financial position was expanded during 1971 by the issuance of commercial paper. This was brought about by the increase in the amounts of our cash resources, which are held offshore for a period of 10 years, until 1980, to comply with the tax status of our Puerto Rican operations. In addition, to conform with the Government's Foreign Direct Investment program, we renegotiated the revolving Eurodollar credit in the amount of $14 million for a term of three years until 1974.

Capital expenditures for the year were $16.3 million, less than had been anticipated, because our industrial businesses cut back on their plant expansion plans. The finances of the Company continue to be strong, and we anticipate no difficulties in financing our growth plans.

In international markets, the growth of our business was affected during the year by the decline in upper respiratory infections in the Far East. Sales were $85,200,000, a 6% increase; net earnings were $8,500,000, down 8%; and net assets were $56,800,000 at December 31.

We continued to pursue our strategy of diversifying the product base of the Company last year. It is notable that 26% of 1971 sales represent new products introduced by the Company since 1965.

During 1971, we gave greater stimulation to our pharmaceutical business by integrating all of our worldwide prescription drug operations under one group vice president. This move enabled us to centralize responsibility for human pharmaceutical research, thereby giving us the capacity to make constant comparative evaluation of all proposed and ongoing research programs.

Another major move was the launching of our 'SK-Line' of pharmaceutical products. This introduction gave us access to a large market in which SK&F had not previously been represented.

In the fall of 1971, Mr. Stanley Fenwick announced his decision to retire as Senior Vice President of the Company and as a member of its Board of Directors. He had been with the Company for more than

Chairman of the Board Thomas M. Rauch and Robert F. Dee, President and Chief Executive Officer.

43 years. In December of last year, Mr. Walter W. Beachboard, who had been Vice President, Secretary and General Counsel of the Company, retired after 25 years of service. We appreciate the contributions to the Company made by both during their many years of devoted service. Mr. Beachboard's posts were filled by Mr. Richard V. Holmes, formerly Assistant General Counsel.

Mr. Richard L. Matthews joined the Company in April of 1971 as Group Vice President and President of our Consumer Products Division. He had previously been Senior Vice President and President of the International Division of The J. B. Williams Co., Inc. and President of Clairol International, Inc., a subsidiary of Bristol-Myers Company. At the January meeting of the Board of Directors, Mr. Matthews was elected a Director.

We fully recognize that challenges and some uncertainties face your Company and the pharmaceutical industry, but we are confident that Smith Kline & French will continue to play a socially significant role in the health care industry and that our corporate strategy will enable us to grow substantially in the years ahead.

We would like to thank our employees for their contributions to the Company's performance in 1971 and to express our confidence in the results their efforts will produce in 1972.

Thomas M. Rauch
Chairman of the Board

Robert F Dee
Robert F. Dee
President and Chief Executive Officer

ROBERT F. DEE ELECTED PRESIDENT

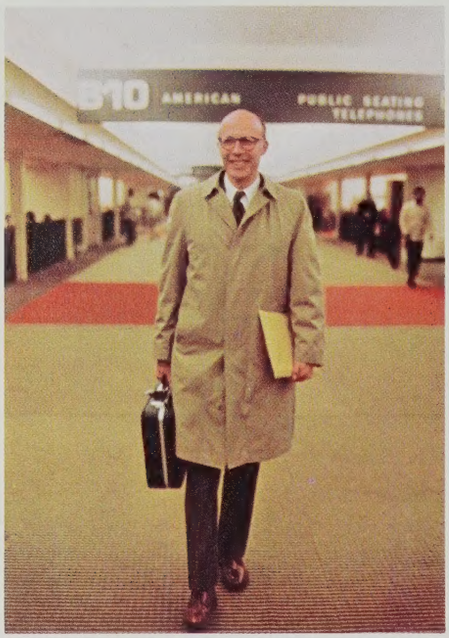
At the January, 1972, meeting of the Board of Directors, on my recommendation the Board elected Robert F. Dee as President of Smith Kline & French Laboratories. Mr. Dee succeeds me as President and Chief Executive Officer of the Corporation.

Mr. Dee is outstandingly qualified to lead our Company. He joined SK&F in 1948 and had been Executive Vice President since January, 1971, and a member of the Board of Directors since 1968. Prior to being elected Executive Vice President, he held executive positions in which he directed our consumer products, animal health and instruments businesses. He has also had administrative experience ranging from research and development to marketing and personnel.

I have derived great satisfaction from the opportunity to head our Company. I am deeply grateful for the support I have received from the shareholders, directors and employees of Smith Kline & French, which I know will be a source of strength for me, as I continue as Chairman, and for Mr. Dee in his new role.

Thomas M. Rauch
Chairman of the Board

WORLDWIDE PHARMACEUTICAL OPERATIONS, HUMAN AND ANIMAL



Donald van Roden, Group Vice President, and President, Pharmaceuticals.

In 1971, we successfully introduced a number of new pharmaceutical products in both domestic and international markets.

Our principal human pharmaceutical introduction in the United States was the 'SK-Line', a line of widely used ethical drug products, promoted to the physician. We are selling the 'SK-Line' at competitive prices, significantly less than the leading brand name competition. Our initial introduction consisted of eight commonly prescribed products, and we plan to add others to the line from time to time. 'SK-Line' was introduced to physicians nationwide by SK&F's professional sales representatives. Pharmacy acceptance was excellent.

In expanding SK&F's product base to include these high-volume, standard pharmaceuticals, the Company is offering physicians a new way of prescribing—a broad line of quality products, promoted as a line, distributed nationally, with brand name convenience and priced significantly below the leading brand names. We believe the line will have a strong appeal to physicians, who are becoming increasingly price conscious, but who must be assured of the quality, reliability and availability of the products they prescribe.

In January of 1971, we introduced 'Ducon', featured in last year's annual report. 'Ducon' is a concentrated liquid antacid especially formulated to provide a high acid-consuming capacity and long duration of action. It is the result of more than four years of laboratory and clinical testing by SK&F. 'Ducon' has been found useful in treating patients with ulcers and

SK&F's 'SK-Line' offers physicians a line of high-volume standard pharmaceuticals, priced below the leading brands.

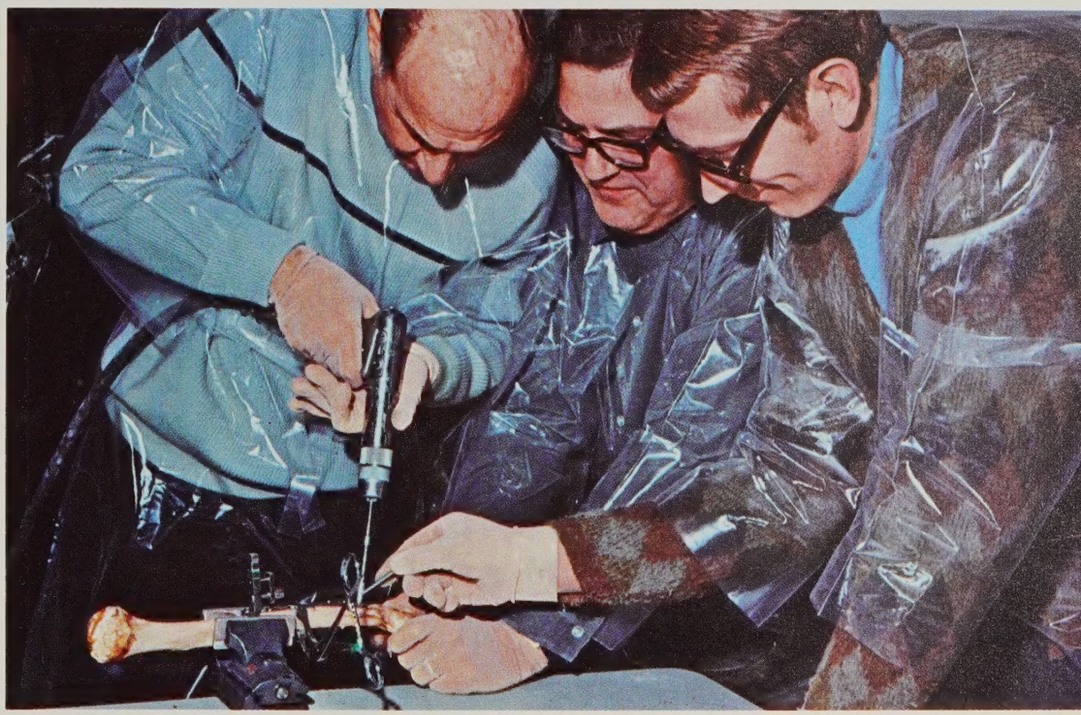
The 'Clinicult' Diagnostic Culturing System enables the physician to test specimens in his own office.

other conditions in which adjunctive antacid therapy is indicated. It has been well received by the medical profession.

In mid-1971, we introduced 'Urispas', SK&F's brand of flavoxate hydrochloride, in the United States. 'Urispas' is a prescription drug for the relief of symptoms associated with various urologic disorders. We are marketing it in the United States under license.

As part of our pharmaceutical operations, we supply selected diagnostic products to physicians. Toward the end of 1970, we introduced SK&F's 'Hemoccult' slides through our pharmaceutical sales force, and in 1971 this product appeared to be receiving excellent acceptance from the medical profession. 'Hemoccult' slides enable the doctor to make rapid, simple and inexpensive determinations in his office for blood in the gastrointestinal tract; they have proved effective as an aid in detecting cancer of the colon, a principal cause of death.

We expanded our diagnostic products program in 1971 with the 'Clinicult' Diagnostic Culturing System. This new concept in culturing enables the office physician to swab, incubate and read a sample specimen from a patient overnight. On introduction, the 'Clinicult' Diagnostic Culturing System consisted of tests for the presence of three common infection-causing organisms. During 1971, we completed work on an additional test to determine the presence of the organism causing gonorrhea, a prevalent venereal disease. The new test was introduced early in 1972.



Surgeons learning to use orthopedic implants marketed by Smith Kline Surgical Specialties.

Smith Kline Surgical Specialties, a new SK&F business center created in 1971, markets throughout North America and the United Kingdom a line of orthopedic devices used in the operative treatment of bone fractures. This implant system was developed in Switzerland by the Association for the Study of Internal Fixation, an organization of 48 orthopedic and surgical specialists. Smith Kline Surgical Specialties made good progress last year and began development of other potential surgical implants with application in medical, dental and veterinary surgery.

SK&F pharmaceuticals being delivered in a remote area of Pakistan.

We were pleased by the growth in international pharmaceutical sales in 1971.

In addition to its sales in the United Kingdom, our U. K. subsidiary markets our products throughout the Mideast, including Greece and Turkey, and in Africa, Scandinavia and Eastern Europe. Sales in these areas of the world showed steady growth during 1971.

Our continental European headquarters are in Genval, Belgium, with branch operations in France, Italy, Spain and The Netherlands. Sales of our antibiotic, diuretic, cardiovascular and vaccine products increased in Europe in 1971. Our Belgian subsidiary, Recherche et Industrie thérapeutiques, continued to produce 'Cendevax', SK&F's German measles (rubella) vaccine, although SK&F's worldwide sales were well below those of 1970, when extensive public immunization programs were conducted.

Our operations in Pakistan and India were affected by the unsettled conditions in those countries, but SK&F's pharmaceutical sales in both were well over budget. Among a line of products we market abroad, sales of 'Furadantin', for urinary tract disorders, an antidiarrhea product, 'Furoxone', and 'Furacin', used to treat burns and infections, were up in India. We introduced several new drug products in Pakistan.

Unloading a shipment of the Company's drug products at a clinic-boat in the Philippines.

Dr. Jerome Gold, SK&F physician involved in cephalosporin development, newly elected member of the Infectious Diseases Society of America and Clinical Associate Professor at the Medical College of Pennsylvania, confers with Dr. Donald Kaye, Professor and Chairman of the Department of Medicine, in the Medical College's hospital.

Our tranquilizer 'Stelazine' increased its share of the market in Southeast Asia, where we have marketing operations in Malaysia, Singapore, Thailand, Indonesia and Hong Kong. 'Stelazine' is marketed primarily through government channels and private clinics in these areas.

'Eskamycin', an antibiotic developed by R.I.T., was introduced in Mexico during 1971, and in Spain we began marketing 'Stafytracine', a broad-spectrum antibiotic combination.

RESEARCH AND DEVELOPMENT

The year 1971 was one of eventful change for our pharmaceutical products Research and Development. Control of the Company's farflung research facilities was consolidated in a single management team with worldwide responsibility.

This realignment emphasizes the corporation's objective of marketing new products as quickly as possible in international markets as well as in the United States, which means that we will have a far more dynamic overseas development program.

The Company's emphasis on research in depth continues to produce drug candidates that measure up to demanding criteria, with backup compounds in reserve. Last year we reported on bronchodilator, anti-arthritic and antiobesity compounds. These are progressing in the clinic. Data in man in 1972 should clarify their potential for the marketplace. Work will continue in the clinic with these and a number of other new chemicals discovered in our laboratories.

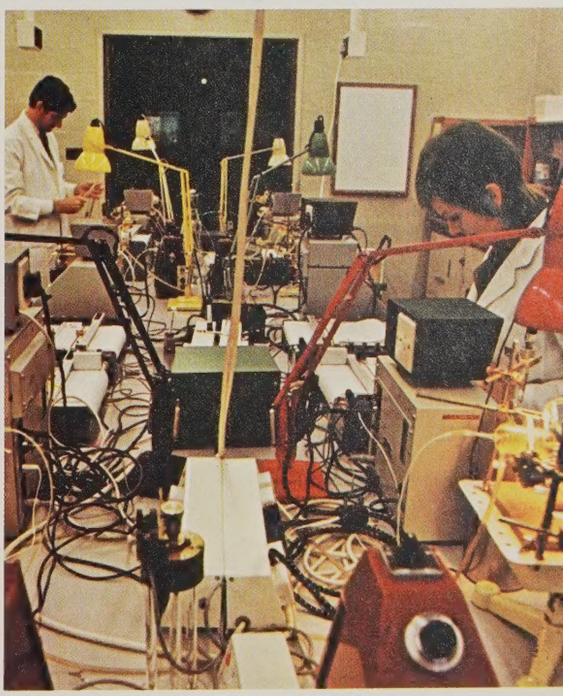
R&D has maintained an expanding effort in anti-infectives, specifically the cephalosporins. The Company hopes to market a cephalosporin antibiotic internationally this year. We also have high hopes for the outcome of work we are carrying out at Welwyn Garden City in England with a new kind of antisecretory agent.

Worldwide vaccine research will also receive emphasis in 1972. Much of the work will be centered in Belgium at Recherche et Industrie thérapeutiques and will be concerned with both human and animal products.

In animal health research, good progress was made during 1971 on the development of an antibiotic for use in swine, both as a growth promotant and for disease control. We expect to file a New Animal Drug Application on this compound with the Food and Drug Administration during 1972. A number of other chemical leads have been found in our feed additive and anthelmintic research program that we believe will result in major development projects.

At Norden Laboratories, our veterinary subsidiary, several research and development projects show immediate promise. Among these is a new feline vaccine, for which we expect marketing approval shortly. Another is a vaccine combining human measles virus and canine distemper virus, which will effectively protect puppies against distemper at an early age.

Our Belgian subsidiary specializes in vaccine research, both human and animal.



Pharmacology research at the Company's U.K. subsidiary, Welwyn Garden City, England.

Our Belgian subsidiary's new vaccine against avian leukosis, one of the largest killers of chickens.

SK&F's worming compound is widely used in Australia for treating sheep.

ANIMAL HEALTH PRODUCTS

Dr. Lewis E. Harris, left, Group Vice President, Medical Services and Instruments, and Animal Health Products.

Our Norden Laboratories veterinary subsidiary had an outstanding year. Sales and earnings advanced substantially, and Norden continued to be the leading company in the domestic ethical veterinary products business.

Norden received U. S. Government approval to market 'Resbovid', a vaccine for bovine virus diarrhea. This disease afflicts both beef and dairy cattle and is estimated to affect 50% of all cattle at some time, causing great economic loss to cattlemen.

After intensive training at Norden's headquarters in Lincoln, Nebraska, eight animal health marketing specialists from our U. K. subsidiary have introduced selected Norden products in the United Kingdom. Advertising, promotion and sales administration were handled from our Welwyn Garden City facility in England. Early reports showed an enthusiastic response from U. K. veterinarians.

Norden's sustained release sulfamethazine 'Spanbolet', the leading ethical sulfa product in the United States for the treatment of livestock, received marketing approval during 1971 from the Canadian Government and was also brought to market in France. This product had another outstanding year in the United States.

Worldwide sales of 'Stafac', an antibiotic feed additive produced by our Belgian subsidiary, increased and the product was introduced for various animal species in a number of countries. 'Stafac' is used in cattle, swine and poultry to improve weight gain and feed efficiency.

Recherche et Industrie thérapeutiques successfully brought to market a vaccine effective against Marek's disease (avian leukosis), which is a menace to poultry, and an improved hog cholera vaccine.

Our broad-spectrum worming compound, parbendazole, continued to be well received in 1971, especially in Australia and New Zealand, where it was first introduced for use in sheep; in New Zealand, sales of the product more than doubled those of 1970. We introduced parbendazole in France last year.

Our scientists at SK&F's Animal Health Research Center, located near West Chester, Pennsylvania, developed a new feed additive in 1971. The experimental compound increases the rate of weight gain and improves feed efficiency in cattle and sheep by inhibiting the production of waste gas in the animal's gastrointestinal tract. SK&F plans to file a New Animal Drug Application on the compound with the Food and Drug Administration in 1972. However, we estimate that several years of field trials will be necessary before a product can be approved for marketing.

A new market for 'Bloat Guard', our feed additive for the prevention of legume bloat in cattle, was opened in 1971 following marketing approval by the Canadian Government.

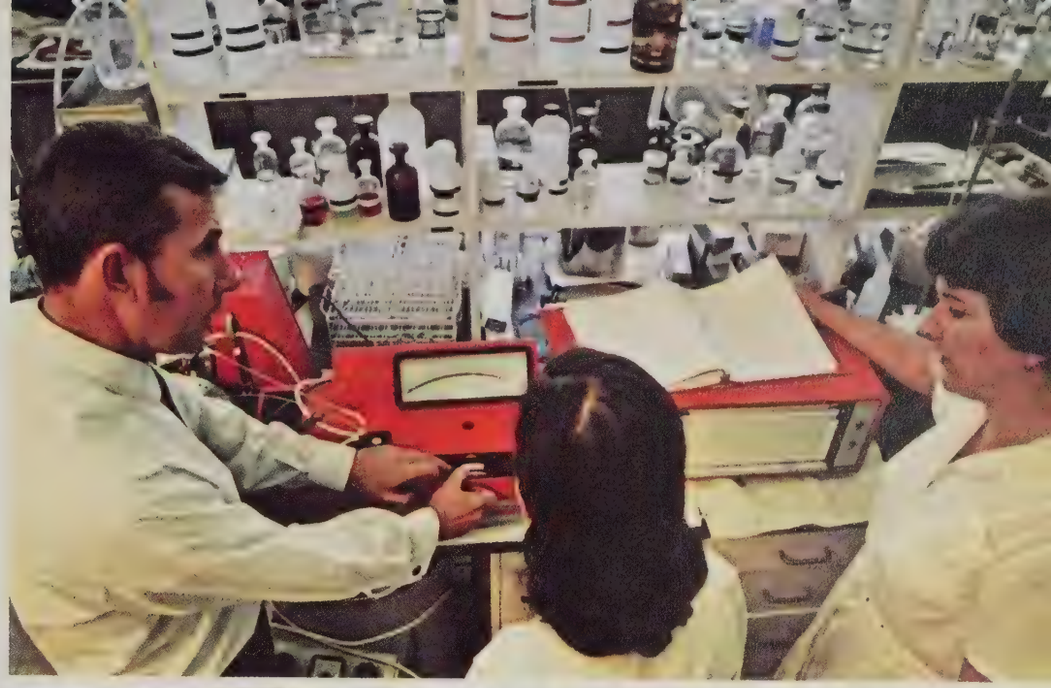
MEDICAL SERVICES AND INSTRUMENTS

Sales of our 'Eskalab' Clinical Chemistry System grew in 1971, particularly in international markets. The product is now being sold in Canada, Australia and the United Kingdom. Several new tests were marketed during the year and additional automated instrumentation was developed for introduction in the first half of 1972.

Geometric Data Corporation, a subsidiary, succeeded in developing a prototype system for the differential analysis of certain blood cells. This technical achievement is expected to result in an important product for the clinical laboratory to be introduced late in 1972.

Our clinical laboratories continued to expand their capabilities in their seven geographical areas. All the laboratories experienced increased volume during the year. Dr. John Goforth, Director of the J. L. Goforth Laboratory, Inc. of Dallas, was honored jointly by the American Association of Clinical Pathologists and the College of Pathology as the distinguished pathologist of the year. Dr. Gerson Biskind of San Francisco, Director of Biskind Laboratory, Inc., completed his year as President of the American Board of Pathology.

As a result of decisions reached during the year to concentrate our medical instrument business in specific areas, we divested ourselves of SKI's patient monitoring and resuscitation product lines. Smith Kline Instruments, Inc. will continue marketing and expanding the clinical laboratory product line. In addition, most of the medical ultrasonic product line, which SK&F has pioneered since 1967, will be retained.



The new 'Eskalab' Flow-Cell System performs tests more rapidly and provides automatic recording of results.

Our clinical laboratories in seven geographical areas continued to expand their services in 1971.

'Contac' sales continued strong in Canada last year.

CONSUMER PRODUCTS

Richard L. Matthews, Group Vice President, and President, Consumer Products.

Despite a reduced demand for cold products in the United States last year —due to a decrease in the incidence of upper respiratory diseases—our cold products continued to hold a large share of the market. 'Contac', our popular cold and hay fever sustained release capsule, was still the undisputed leader in its field in the United States.

Two new proprietary products introduced domestically in 1970 by our subsidiary Menley & James Laboratories, Ltd.—'C3', a cold-cough capsule, and 'Sine-Off', for the treatment of sinus headache—moved up in sales and consumer recognition during the year in their limited but expanding markets.

In Japan, 'Contac' now holds 12% of the cold products market and is the leading foreign proprietary in that country. In the United Kingdom, we launched an advertising program to promote 'Contac' as a year-round decongestant—"the 12-hour block buster"—and it has already gained a significant share of the market. 'Contac' sales continued strong in West Germany, Australia, Canada, Mexico and Southeast Asia; 'Contac' Throat Lozenges were introduced in the United Kingdom.

In 1971, Menley & James enlarged the military market for consumer products, following Army and Air Force approval for commissaries to stock cold products. 'Contac', 'C3', 'Sine-Off', Sea & Ski's 'Lipsaver' and 'Benzedrex' Inhaler were introduced in 139 of 311 Army and Air Force commissaries.

During 1971, we successfully introduced in the United Kingdom a new iron supplement and vitamin proprietary product under the trademark 'Ironplan'. Although marketing only began in September, sales of the product had more than doubled forecasts for 1971 by the end of the year.

'Ironplan', SK&F's new proprietary iron supplement and vitamin product, was introduced in the United Kingdom during 1971.

Love Cosmetics in a U. S. department store.

A Japanese cosmetician demonstrates the 'Love' line in Japan.

LOVE COSMETICS

Sales in the United States of Love Cosmetics by Menley & James progressed very well. The line has been in an investment phase since its introduction, but we now expect to see it turn the profit corner in 1972. The 'Love' line continued to grow last year as new products and new shades and varieties of existing products were added.

A major move in 1971 was our introduction of Love Cosmetics in department stores in the United States; sales were limited to drugstores when the line was first marketed. By year's end, Love Cosmetics were on sale in 71 major department stores, representing 474 branch stores throughout the United States.

In Canada, where we entered department stores from the beginning, 'Love' continues its excellent growth trend.

In August, Love Cosmetics were launched in Japan and received a warm reception. Initially, the line was sold in department stores and cosmetic shops in Tokyo and Osaka, an area representing more than two-thirds of the buying power in Japan. The ultimate goal is to market Love Cosmetics throughout Japan.

In spite of a strong advertising program, 1971 sales of 'Sea & Ski' sun care products fell below target. However, market research data indicated that Sea & Ski's 'Lipsaver', a lip balm in four flavors, now holds a significant position in the U. S. lip balm market and is constantly growing in strength. We introduced this product in Canada late in the year.

FOOD PRODUCTS

Avoset Food Corporation, our food specialties subsidiary, introduced individual snack-size Portion-Pak containers of its new gelatins in orange, lime, strawberry and cherry flavors. Because it is produced by Avoset's aseptic packaging process, the product does not require refrigeration. The gelatins are marketed for use in vending machines and through industrial caterers and similar accounts in the food service field.

Sales of Avoset's High-Poly Non-Dairy Creamer and its Non-Dairy Pastry Topping continued to improve last year. The polyunsaturated creamer is marketed under major private labels. The pastry topping, which is competitively priced and of superior quality, has also been well received.

Late in 1971, Avoset began production in its new 50,000-square-foot dairy plant in Newburgh, New York, which enables the company to make a competitive entry into East Coast markets, especially New York City and New York State. These major markets had previously been closed to Avoset because of restrictive New York State laws. Start-up expenses on this operation were substantially absorbed in 1971.

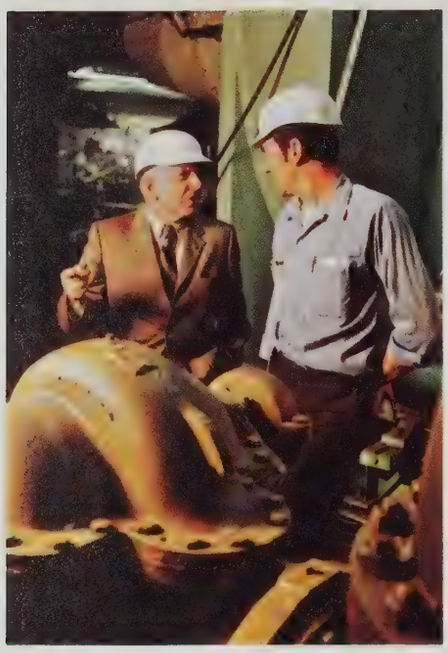
Avoset has begun test marketing some new products under the 'Qwip' trademark. The company is marketing puddings, shakes and gelatins in a number of major supermarket chains in southern California, with encouraging results to date.

Sea & Ski's promotion is aimed at the youth market.

Avoset products in Singapore.

A new customer learns to use the Branson ultrasonic sewing machine.

INDUSTRIAL PRODUCTS



Alfred J. D'Angelo, Group Vice President, Ultrasonic Products and Corporate Technical Services.

The sluggishness of the U. S. economy and its depressing effect on sales of capital equipment adversely influenced our Branson companies' sales and earnings last year, although both companies expanded the markets for several of their lines of specialized equipment.

Branson Instruments Company continued to develop additional applications for its thickness gauging and flaw detection instruments and introduced new portable ultrasonic thickness gauging equipment.

Branson Sonic Power Company entered into an agreement to manufacture a private label version of the Branson Sonic Sewing Machine for Reese Corporation, a leading supplier of specialized sewing equipment for the apparel and shoe industries. Interest in ultrasonic sewing continued to grow in 1971; the Branson equipment was sold to firms in the garment, packaging, textile and quilting industries.

Branson Sonic Power Company also developed new uses for its products last year, including a technique by which plastic elements may be welded ultrasonically in several places with one burst of ultrasonic energy and aluminum parts soldered ultrasonically without the use of flux.

Our Branson operations showed growth outside the United States; sales and profits were less adversely affected by economic slowdowns. Both Branson companies have production and marketing facilities in Europe; in some countries, they sell through distributors. Branson Sonic Power has established an office in Japan.

Although starting from a small base, American Polarizers, Inc. has successfully developed potentially large markets for its 'Sun-Bar' polarized material, used to filter out the glare of the sun. API now supplies most of the major manufacturers of sunglasses, ski goggles and related eye-wear in the United States and Europe with our polarized material. The company also supplies polarized window units to aircraft manufacturers in the United States and Europe.

API is currently working with one of the major European manufacturers of automobiles on a polarized headlight system to reduce glare and increase safety for night driving.

The company has just entered a new field with a technique that utilizes polarized material to create animated motion. The potential for this field is large and encompasses such items as advertising displays and educational teaching devices.

Testing pipes for corrosion with Branson equipment at a Mexican oil refinery.

The glare-free headlight at right was developed by American Polarizers, Inc.

Smith Kline & French Laboratories and Subsidiaries

STATEMENT OF CONSOLIDATED EARNINGS

Years ended December 31, 1971 and 1970

	1971	1970
CURRENT EARNINGS		
Income:		
Sales	**$357,153,000**	$347,023,000
Interest and other income	**5,068,000**	4,567,000
	362,221,000	351,590,000
Costs and expenses:		
Material and manufacturing cost of products sold	**119,715,000**	105,943,000
Marketing, administrative and general	**134,803,000**	132,661,000
Research and development	**35,079,000**	31,313,000
Interest expense	**1,812,000**	1,030,000
Other	**2,791,000**	2,419,000
	294,200,000	273,366,000
Earnings before income taxes	**68,021,000**	78,224,000
Provision for federal, state and foreign income taxes (note 2)	**23,150,000**	34,570,000
Net earnings	**$ 44,871,000**	$ 43,654,000
Net earnings per share (based on average shares: 1971—14,537,000; 1970—14,524,000)	**$ 3.09**	$ 3.01
EARNINGS RETAINED IN THE BUSINESS		
Balance at beginning of year	**$ 191,511,000**	$177,132,000
Restatement for 1,983 treasury shares issued in 1971 for a company acquired in 1970 as a pooling of interests (note 1)	—	(116,000)
Excess of cost over market value of 38,310 treasury shares issued in 1970 for acquisitions (note 1)	—	(234,000)
Excess of cost over proceeds of 2,805 treasury shares issued for stock options exercised (note 4)	**(17,000)**	—
Net earnings for the year	**44,871,000**	43,654,000
	236,365,000	220,436,000
Deduct cash dividends paid—$2.00 per share	**29,072,000**	28,925,000
Balance at end of year	**$207,293,000**	$191,511,000

See accompanying notes to financial statements.

Smith Kline & French Laboratories and Subsidiaries

CONSOLIDATED BALANCE SHEET

December 31, 1971 and 1970

	1971	1970
ASSETS		
Current assets:		
Cash	**$ 12,348,000**	$ 9,281,000
Time deposits and marketable securities, at cost which approximates market	**25,931,000**	15,171,000
Accounts and notes receivable, less provision for losses: 1971—$1,277,000, 1970—$1,059,000	**70,170,000**	68,833,000
Inventories—generally at the lower of average cost or market:		
Finished products	**19,281,000**	16,316,000
Work in process	**15,747,000**	13,413,000
Raw materials and supplies	**19,714,000**	21,789,000
	54,742,000	51,518,000
Prepaid expenses	**5,659,000**	4,046,000
Total current assets	**168,850,000**	148,849,000
Investments and other assets, at cost	**3,644,000**	3,154,000
Plant and equipment, at cost:		
Land	**6,704,000**	6,704,000
Buildings	**84,595,000**	76,768,000
Machinery and equipment	**67,402,000**	60,263,000
	158,701,000	143,735,000
Less accumulated depreciation (note 2)	**63,415,000**	57,784,000
Total plant and equipment	**95,286,000**	85,951,000
Goodwill, patents and other intangibles	**29,545,000**	26,308,000
	$297,325,000	$264,262,000

See accompanying notes to financial statements.

	1971	1970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	**$ 17,617,000**	$ 3,642,000
Accounts payable	**16,970,000**	18,960,000
Accrued expenses	**26,726,000**	22,835,000
Income taxes (note 2)	**12,019,000**	14,835,000
Total current liabilities	**73,332,000**	60,272,000
Long-term debt (note 3)	**15,571,000**	11,513,000
Shareholders' equity:		
Common stock without par value. Authorized 18,000,000 shares; issued 14,641,504 shares at stated value (note 4)	**7,124,000**	7,124,000
Earnings retained in the business	**207,293,000**	191,511,000
	214,417,000	198,635,000
Less common stock in treasury, at cost: 1971—102,811 shares; 1970—105,616 shares	**5,995,000**	6,158,000
Total shareholders' equity	**208,422,000**	192,477,000
	$297,325,000	$264,262,000

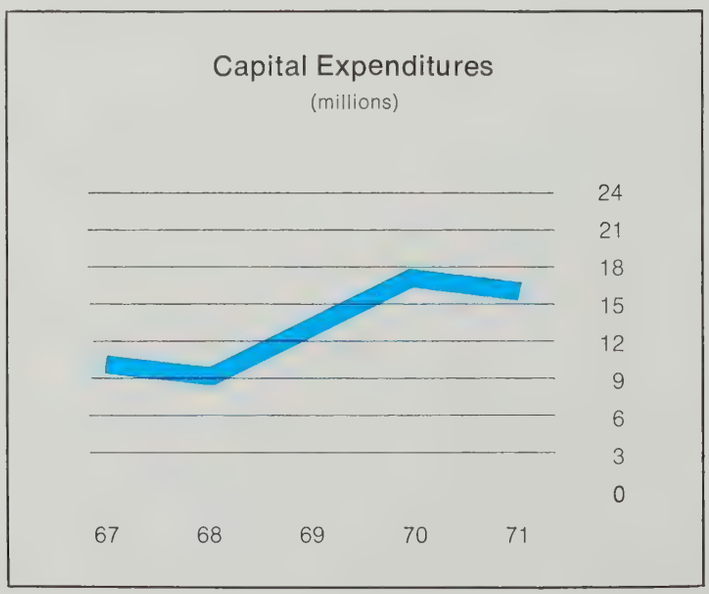
Smith Kline & French Laboratories and Subsidiaries

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

Years ended December 31, 1971 and 1970

	1971	1970
SOURCE OF FUNDS:		
Net earnings for the year	**$44,871,000**	$43,654,000
Depreciation	**7,278,000**	7,657,000
Increase in long-term debt	**4,058,000**	2,153,000
Issuance of treasury stock	**163,000**	2,234,000
Other, net	**132,000**	(572,000)
Total source of funds	**56,502,000**	55,126,000
APPLICATION OF FUNDS:		
Dividends	**29,072,000**	28,925,000
Capital expenditures	**16,268,000**	17,601,000
Noncurrent assets of businesses acquired	**4,221,000**	6,452,000
Total application of funds	**49,561,000**	52,978,000
Increase in working capital	**$ 6,941,000**	$ 2,148,000
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Current assets:		
Cash	**$ 3,067,000**	$ (1,599,000)
Time deposits and marketable securities	**10,760,000**	(22,592,000)
Accounts and notes receivable	**1,337,000**	18,847,000
Inventories	**3,224,000**	9,965,000
Prepaid expenses	**1,613,000**	358,000
	20,001,000	4,979,000
Current liabilities:		
Notes payable	**(13,975,000)**	1,221,000
Accounts payable	**1,990,000**	(3,798,000)
Accrued expenses	**(3,891,000)**	(4,953,000)
Income taxes	**2,816,000**	4,699,000
	(13,060,000)	(2,831,000)
Increase in working capital	**$ 6,941,000**	$ 2,148,000

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

(1) BASIS OF CONSOLIDATION, ETC.

The consolidated financial statements include the accounts of Smith Kline & French Laboratories and its domestic and foreign subsidiaries except Smith Kline Credit Corporation, a minor subsidiary, which is carried at equity. To conform with the 1971 presentation, the 1970 amounts for long-term debt and interest expense have been reclassified.

During 1971 the Company purchased a foreign company for cash resulting in a charge to goodwill of approximately $3,000,000. During 1970 the Company acquired a number of small companies for cash and 147,214 shares of treasury stock. Two of the 1970 acquisitions were accounted for as poolings of interests and the remainder were accounted for as purchases and resulted in a charge to goodwill of approximately $6,500,000. Certain of the 1970 acquisition agreements provide for additional payments contingent upon the attainment of specified performance levels by the acquired companies. During 1971 payments reduced the maximum contingency to approximately $8,400,000.

The accounts of foreign subsidiaries and branches included in the consolidated financial statements have been translated into U.S. dollars as follows: plant and equipment and related depreciation at approximate U.S. dollar equivalent of cost at dates of acquisition; all other asset and liability accounts at appropriate closing rates of exchange. Income and expense accounts, other than depreciation, have been translated at the foreign exchange rates in effect during the year. Unrealized gains on foreign exchange in the fourth quarter of 1971, not material in amount, have been deferred in the accompanying balance sheet. International operations are summarized below.

	1971	1970
	(In Thousands)	
Sales	**$85,236**	$80,542
Net earnings	**8,508**	9,204
Net assets	**56,792**	51,309

(2) INCOME TAXES AND DEPRECIATION

The income of a domestic subsidiary which began operations in Puerto Rico in 1970 is exempt from Puerto Rican and United States income taxes through 1979. The exemption had the effect of increasing net earnings by approximately $10,000,000 in 1971 and $5,000,000 in 1970.

Deferred income taxes relating principally to pensions, insurance and depreciation are included in the balance sheet caption "Income taxes."

The straight-line method of depreciation is used for accounting purposes and accelerated methods for income tax purposes.

(3) LONG-TERM DEBT

	1971	1970
	(In Thousands)	
Notes payable under a revolving credit arrangement for Eurodollar borrowings at lender's prime rates up to a maximum of $14,000,000 through October, 1974	**$13,000**	$10,000
Other long-term debt	**2,571**	1,513
	$15,571	$11,513

(4) STOCK OPTION PLAN

Activity under the Company's qualified stock option plan approved by the shareholders in 1966 is as follows:

	1971	1970
	Number of Shares	
Balance beginning of year	**115,460**	110,725
Options granted at fair market value (prices ranging from $46.44 to $56.44 per share)	**27,875**	28,085
Options exercised	**(2,805)**	—
Options cancelled	**(8,820)**	(23,350)
Balance end of year	**131,710**	115,460
Available for future grants	**265,485**	284,540

(5) RETIREMENT PLANS

The Company and several of its subsidiaries have trusteed, non-contributory pension plans which provide retirement benefits for eligible employees. In connection with such plans, earnings have been charged with $3,043,000 in 1971 and $2,857,000 in 1970 applicable principally to current costs as past service costs have been substantially funded. Certain other subsidiaries have separate retirement plan arrangements which include insured plans and unfunded plans.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Shareholders
Smith Kline & French Laboratories:

We have examined the consolidated balance sheet of Smith Kline & French Laboratories and subsidiaries as of December 31, 1971 and 1970 and the related statements of earnings and changes in financial position for the respective years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Smith Kline & French Laboratories and subsidiaries at December 31, 1971 and 1970 and the results of their operations and changes in financial position for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 22, 1972

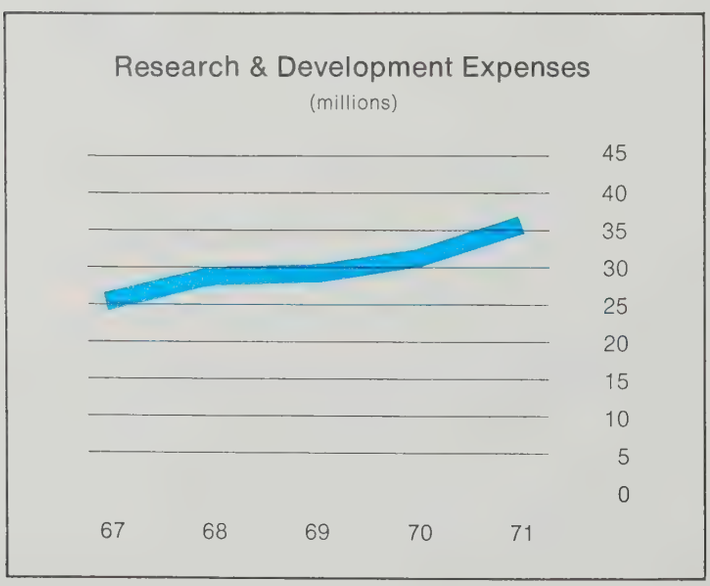
Transfer and Dividend Disbursing Agents—The Philadelphia National Bank, Philadelphia; Morgan Guaranty Trust Company of New York.

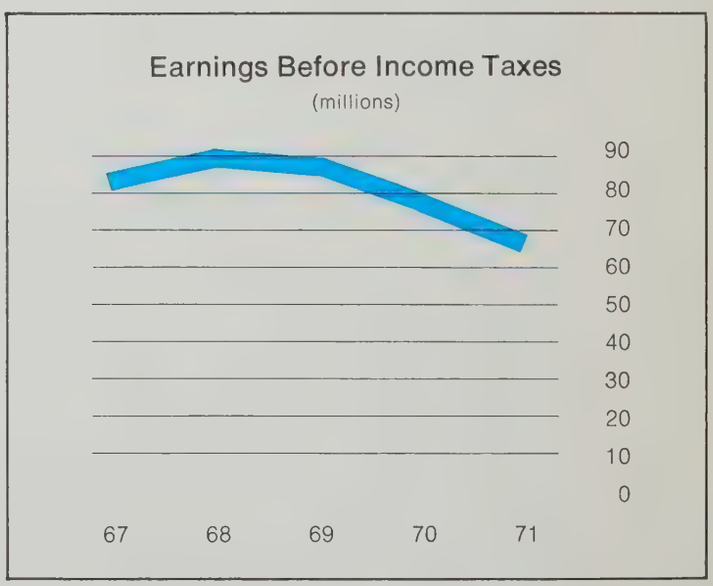
Registrars—The Fidelity Bank, Philadelphia; First National City Bank, New York.

Smith Kline & French Laboratories and Subsidiaries

TEN-YEAR SUMMARY

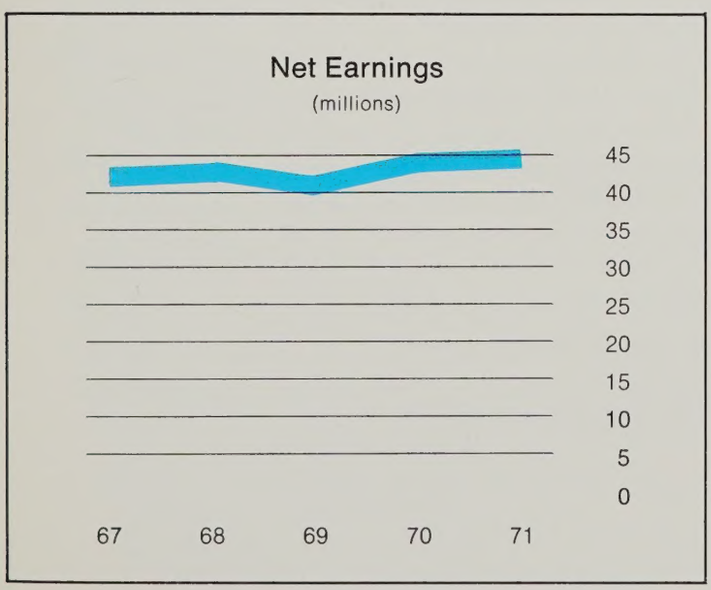
OPERATING RESULTS	1971	1970	1969
Sales	**$357.2**	$347.0	$317.3
Interest and other income	**5.1**	4.6	4.8
Material and manufacturing cost of products sold	**119.7**	105.9	83.1
Marketing, administrative and general expenses	**134.8**	132.7	120.7
Research and development expenses	**35.1**	31.3	29.1
Interest and other expenses	**4.7**	3.5	2.5
Earnings before income taxes	**68.0**	78.2	86.7
Provision for income taxes	**23.1**	34.5	45.9
Net earnings	**44.9**	43.7	40.8
Depreciation charged to operations (included above)	**7.3**	7.7	5.8
Net earnings per share	**$3.09**	$3.01	$2.81
Dividends paid per share	**2.00**	2.00	2.00
FINANCIAL			
Current assets	**$168.8**	$148.9	$143.9
Current liabilities	**73.3**	60.3	57.5
Working capital	**95.5**	88.6	86.4
Plant and equipment (net)	**95.3**	86.0	76.9
Capital expenditures	**16.3**	17.6	12.6
Total assets	**297.3**	264.3	242.5
Long-term debt	**15.6**	11.5	9.4
Shareholders' equity	**208.4**	192.5	175.7
Number of employees	**10,396**	10,201	9,581

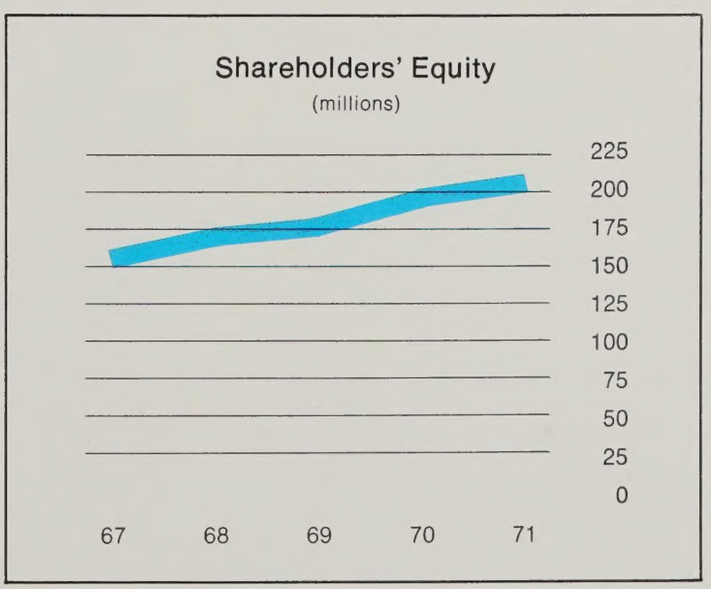




Dollar amounts in millions except per share figures

1968	1967	1966	1965	1964	1963	1962
$283.0	$260.0	$251.4	$243.7	$218.2	$203.5	$180.8
4.7	4.1	3.2	3.3	3.0	2.3	2.1
63.5	57.1	52.9	55.9	51.4	49.0	45.6
103.7	96.8	95.2	84.1	72.4	66.5	54.8
28.2	26.0	25.1	23.8	20.0	18.2	17.1
2.4	1.2	1.1	.5	.6	.2	.4
89.9	83.0	80.3	82.7	76.8	71.9	65.0
47.6	40.9	39.0	40.5	38.1	37.9	34.5
42.3	42.1	41.3	42.2	38.7	34.0	30.5
6.2	5.6	5.1	4.4	3.6	3.3	3.1
$2.92	$2.90	$2.84	$2.89	$2.64	$2.33	$2.08
2.00	2.00	2.00	1.85	1.55	1.50	1.35
$134.0	$118.2	$107.1	$107.4	$115.7	$103.6	$87.6
46.8	43.9	42.9	47.6	44.5	42.3	36.7
87.2	74.3	64.2	59.8	71.2	61.3	50.9
67.5	64.5	60.2	53.6	46.0	39.2	37.0
9.9	10.6	12.5	14.4	11.4	6.0	5.1
223.1	200.6	186.5	181.4	170.1	151.9	134.3
6.4	—	—	—	—	—	—
169.9	156.6	143.6	133.6	124.8	108.9	96.8
8,989	7,645	7,473	7,030	6,091	5,724	5,250





DIRECTORS

Thomas M. Rauch, *Chairman*
Samuel H. Ballam, Jr.
Carter L. Burgess
Morris Cheston
Alfred J. D'Angelo
Robert F. Dee
Thomas S. Gates
Courtlandt S. Gross
Lewis E. Harris
Samuel P. Martin, M.D.
Richard L. Matthews
Miles Valentine
Donald van Roden

CORPORATE OFFICERS

Thomas M. Rauch *Chairman of the Board*

Robert F. Dee *President and Chief Executive Officer*

Alfred J. D'Angelo *Group Vice President, Ultrasonic Products and Corporate Technical Services*

Lewis E. Harris *Group Vice President, Medical Services and Instruments, and Animal Health Products*

Richard L. Matthews *Group Vice President, Consumer Products*

Donald van Roden *Group Vice President, Pharmaceuticals*

Harold A. Clymer *Vice President, Corporate Business Development*

Bryce Douglas, Ph.D. *Vice President, Pharmaceutical Research and Development*

Peter Godfrey *Vice President, U.S. Consumer Products*

Peter Hickman *Vice President, International Pharmaceutical Operations*

John K. Nevin *Vice President, Manufacturing—Pharmaceuticals*

William Steytler, Jr. *Vice President, Corporate Personnel and Communication*

Hubert D. Vos *Vice President, Corporate Planning and Finance*

Henry Wendt, III *Vice President, U.S. Pharmaceutical Operations*

Lester E. Hammar *Controller*

Richard V. Holmes *Secretary*

William T. Rennie *Treasurer*

PRINCIPAL SUBSIDIARY COMPANIES

American Polarizers, Inc., Reading, Pennsylvania

Avoset Food Corporation, Oakland, California

Branson Instruments, Inc., Danbury and Stamford, Connecticut

Menley & James Laboratories, Ltd., Philadelphia, Pennsylvania

Norden Laboratories, Inc., Lincoln, Nebraska

Sea & Ski Corporation, Reno, Nevada; Philadelphia, Pennsylvania

Smith Kline Instruments, Inc., Palo Alto, California

SK&F Co., San Juan, Puerto Rico

Recherche et Industrie thérapeutiques, S.A., Genval, Belgium

Recherche et Industrie Thérapeutiques, S.A., Paris, France

Ricerca e Industria Terapeutiche S.p.A., Milan, Italy

Smith Kline & French Overseas Co., Philadelphia, Pennsylvania; Tokyo, Japan; Manila, Philippines

Smith Kline & French Inter-American Corporation, Philadelphia, Pennsylvania; Lima, Peru; San Juan, Puerto Rico; Buenos Aires, Argentina

Smith Kline & French Canada, Ltd., Montreal, Canada

Smith Kline & French Laboratories Limited, Welwyn Garden City, England

Smith Kline & French (Proprietary) Limited, Isando, Transvaal, South Africa

Smith Kline & French Laboratories (Australia) Limited, French's Forest, New South Wales, Australia

Smith Kline & French (India) Limited, Bangalore, India

Smith Kline & French, S.A., Mexico City, Mexico

Smith Kline & French, S.A.E., Alcalá de Henares (Madrid), Spain

Smith Kline & French of Pakistan Limited, Karachi, Pakistan

Corporate Offices
- Philadelphia, Pa.

Manufacturing Facilities
- Pharmaceutical Products
  - Philadelphia, Pa.
  - San Juan, Puerto Rico
  - Lincoln, Nebr.
- Consumer Products
  - Philadelphia, Pa.
  - Gustine, Calif.
  - Washington Court House, Ohio
  - Newburgh, N. Y.
  - Reno, Nev.
- Instrument Products
  - Palo Alto, Calif.
- Industrial Products
  - Danbury, Conn.
  - Stamford, Conn.
  - Shelton, Conn.
  - Clark, N. J.
  - Lewistown, Pa.
  - Reading, Pa.
- International
  - Australia
  - Belgium
  - Canada
  - France
  - India
  - Italy
  - Mexico
  - The Netherlands
  - Pakistan
  - Philippines
  - South Africa
  - Spain
  - United Kingdom

Research and Development Facilities
- Philadelphia, Pa.
- Upper Merion, Pa.
- Chester County, Pa.
- Lincoln, Nebr.
- Gustine, Calif.
- Palo Alto, Calif.
- Danbury, Conn.
- Stamford, Conn.
- Australia
- Belgium
- Canada
- South Africa
- United Kingdom

Medical Laboratory Service Facilities
- Boston, Mass.
- Dallas, Tex.
- Los Angeles, Calif.
- St. Louis, Mo.
- San Francisco, Calif.
- Tampa, Fla.
- Edmonton, Canada

Three Spring Garden area students attending school in Hanover, New Hampshire, through the "Potentials" special educational program sponsored by SK&F.

COMMUNITY AFFAIRS

For many years, Smith Kline & French has played an active part in community affairs. Since 1962, we have concentrated our efforts on the Spring Garden area in the neighborhood of our Philadelphia headquarters, where the residents are mainly from ethnic minority groups and environmental and social conditions are much below optimum.

In 1971, we continued to staff our Information Services Center, which provided counseling and personal problem-solving for some 2,000 cases. We also funded educational programs for worthy young people, helping some to go to college and others to receive specialized educational opportunities in secondary schools outside the area.

We continued to support our "Potentials" program, a year-round plan for employment, guidance and education that prepares teenagers for educational or vocational opportunities on completion of high school.

SK&F joined four other Philadelphia companies in announcing plans for a privately financed, $400 million program to create a new in-town community on a 49-acre site in the vicinity of our headquarters. To be called Franklin Town, it will consist of residential units, commercial offices, shopping facilities, hotel accommodations, theaters, restaurants, places of worship and a two-acre town square. SK&F's involvement will include a small amount of seed money and 5.6 acres of land owned by the Company. The plan for the new community calls for comprehensive efforts to improve depressed areas in our neighborhood.

TRADEMARKS APPEARING IN THIS REPORT

BENZEDREX	—trademark for a nasal decongestant
BLOAT GUARD	—trademark for poloxalene
C3	—trademark for cold-cough preparation
CENDEVAX	—trademark for rubella virus vaccine
CLINICULT	—trademark for laboratory diagnostic equipment
CONTAC	—trademark for decongestant capsule and related products
DUCON	—trademark for an antacid
ESKALAB	—trademark for clinical chemistry system
ESKAMYCIN	—trademark for virginiamycin for human use
HEMOCCULT	—trademark for liquid and paper reagent for laboratory diagnostic testing
IRONPLAN	—trademark for sustained release iron and vitamin preparation
LIPSAVER	—trademark for lip balm
QWIP	—trademark for dessert topping
RESBOVID	—trademark for a veterinary vaccine
SEA & SKI	—trademark for sun care products
SINE-OFF	—trademark for sinus headache preparation
SK-LINE	—trademark for a line of pharmaceutical products
SPANBOLET	—trademark for sulfamethazine in sustained release form
STAFAC	—trademark for virginiamycin for veterinary use
STAFYTRACINE	—trademark for virginiamycin and tetracycline for human use (Belgium and Mexico)
STELAZINE	—trademark for trifluoperazine HCl
SUN-BAR	—trademark for polarized optical blanks
URISPAS	—trademark for an antispasmodic preparation

FIN: 12

Printed in U.S.A.